

NEW MEXICO OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

APPLICATION FOR APPROVAL OF ROCKY ARROYO
UNIT AGREEMENT, EDDY COUNTY, NEW MEXICO.

New Mexico Oil Conservation Commission
Santa Fe
New Mexico

Comes the undersigned, the Potash Company of America, and files herewith three copies of a unit agreement for the development and operation of the Rocky Arroyo Unit Area, Eddy County, New Mexico, and hereby makes application for the approval of said agreement by the New Mexico Oil Conservation Commission, and in support thereof shows:

1. That the unit area designated in said agreement covers 23,040.29 acres situated in Townships 20, 20 $\frac{1}{2}$, 21 and 22 South, Ranges 23 and 24 East, Eddy County, New Mexico, of which 21,121.76 acres or 87.34% is land of the United States, 2,619.71 acres or 11.37% is land of the State of New Mexico, and 298.82 acres or 1.29% is patented or privately owned land.

That said agreement has been executed by a substantial number of the owners of oil and gas leases embracing the lands included in said unit area.

2. That the area described in said unit agreement has heretofore been designated by the Director of the United States Geological Survey as one suitable and proper for unitization, and all of the lands embraced therein are believed to be situated upon the same geological structure.

3. That said agreement has heretofore been approved as to form thereof by the United States Geological Survey and the Commissioner of Public Lands of the State of New Mexico, and after an opportunity has been given for all of the owners of oil and gas leases embracing lands of the State of New Mexico which are within the unit area, to join in the agreement, the same will be promptly submitted for the approval of the Secretary of the Interior and the Commissioner of Public Lands of the State of New Mexico, and it is anticipated that such approval will be obtained by the time a hearing is had on this application.

4. That the undersigned is designated as the Unit Operator in said agreement, and the Unit Operator is given authority under the terms of said agreement to carry on operations necessary for the exploration and development of the unit area for oil and gas, subject to the regulations of the Secretary of the Interior and the Commissioner of Public Lands of the State of New Mexico, and the New Mexico Oil Conservation Commission; that under the terms of the agreement a well is to be commenced at a location upon some part of the lands embraced in the unit area within six months of the effective date of the agreement and drilled with due diligence to a depth of not less than 4,000 feet, unless oil or gas is found at a lesser depth, or unless at a lesser depth, an igneous or metamorphic formation or some other condition or formation is encountered which would render further drilling inadvisable or impracticable.

5. All operations carried on pursuant to the unit agreement are to be conducted so as to provide for the most economical and efficient recovery of oil and gas to the end

that the maximum yield may be obtained from the field or area if oil or gas should be discovered in paying quantities, and the production is to be limited to such production as can be put to beneficial use with adequate realization of fuel and other values and it is believed that such agreement will be in the interest of conservation of oil and gas and the prevention of waste as contemplated by the oil conservation statutes of the State of New Mexico.

WHEREFORE, the undersigned applicant respectfully requests that a public hearing be held on the matter of the approval of said unit agreement as provided by the statutes of the State of New Mexico and the regulations of the New Mexico Oil Conservation Commission, and that upon said hearing said unit agreement be approved by the New Mexico Oil Conservation Commission.

Respectfully submitted,
POTASH COMPANY OF AMERICA
By G. J. Coops

ATTEST:
A. J. Davis
As Secretary

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION OF THE ROCKY ARROYO UNIT AREA
EDDY COUNTY STATE OF NEW MEXICO

I. Sec. No. _____

This agreement, entered into, as of the _____ day of _____, 194_, by and between the parties subscribing or consenting hereto,

W-I-T-N-E-S-S-E-T-H:

WHEREAS, the parties hereto are the owners of operating, royalty, or other oil or gas interests in the unit area subject to this agreement;

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent avoidable waste, and secure other benefits obtainable through development and operation of the unit area subject to this agreement under and pursuant to the provisions of sections 17, 27, and 32 of the Act of Congress approved February 25, 1920, entitled "An Act to promote the mining of coal, phosphate, oil, oil shale, gas and sodium on the public domain, "41 Stat. 443, 448, 450, as amended or supplemented by the acts of March 4, 1931, 46 Stat. 1523, and August 21, 1935, 49 Stat. 676; 30 U.S.C. 226, 184 and 189;

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Chap. 88, Laws 1943) to consent to or approve this agreement on behalf of the state of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by an Act of the Legislature (Chap. 72, Laws 1935) to approve this agreement and the conservation provisions hereof;

NOW, THEREFORE, for and in consideration of the premises and the promises hereinafter contained, the parties subscribing hereto and the parties consenting hereto agree as follows:

ENABLING ACT 1. The act of February 25, 1920, supra, as
 AND
REGULATIONS amended, and all pertinent regulations heretofore and all pertinent and reasonable regulations hereafter issued thereunder, and not inconsistent with the provisions hereof, including operating regulations, are accepted and made a part of this agreement. Likewise, the Act of the Legislature of the State of New Mexico (Chap. 88, Laws 1943) and the Act of the Legislature of the State of New Mexico (Chap. 72, Laws 1935) and all pertinent regulations issued under the latter Act are hereby accepted and made part of this agreement.

DEFINITIONS 2. For all purposes of this agreement,
 certain terms used herein are defined
as follows:

(a) "Secretary" shall mean the Secretary of the Interior of the United States and those persons or agencies duly authorized to act for and in his behalf.

(b) "Supervisor" shall mean the Oil and Gas Supervisor of the United States Geological Survey and those persons or agencies duly authorized to act for and in his behalf.

(c) "Commissioner" shall mean the Commissioner of Public Lands of the State of New Mexico.

(d) "Commission" shall mean the Oil Conservation Commission of the State of New Mexico and those persons duly authorized to act for and in its behalf.

UNIT AREA

3. The following described lands are hereby designated and recognized as constituting the unit area:

E $\frac{1}{2}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$, and S $\frac{1}{2}$ Section 33, All of Sections 34 and 35, Township 20 South, Range 24 East, All of fractional Sections 33, 34, 35 and 36, Township 20 $\frac{1}{2}$ South, Range 23 East. All of Sections 1, 2, 3, 4, 9, 10, 11, 12, 13, 14, 15, 16, 21, 22, 23, 24, 25, 26, 27, 28, 33, 34, 35, and 36, Township 21 South, Range 23 East, All of Sections 1, 2, 3, N $\frac{1}{2}$ and N $\frac{1}{2}$ S $\frac{1}{2}$, S $\frac{1}{2}$ SE $\frac{1}{4}$ Section 4, E $\frac{1}{2}$ Section 9, All of Sections 10 and 11, SW $\frac{1}{4}$ SW $\frac{1}{4}$ and N $\frac{1}{2}$ SW $\frac{1}{4}$ and NW $\frac{1}{4}$ Section 12, Township 22 South, Range 23 East, N.M.P.M., Eddy County, New Mexico.

The Unit Operator, with the consent of a majority in interest of the Working Interest Owners, and subject to the approval of the Secretary, the Commissioner and the Commission, may enlarge the unit area to include other lands believed to be commercially productive of the unitized substances, or shall, subject to approval of the Secretary, the Commissioner and the Commission, diminish the unit area to exclude lands not in any participating area hereunder believed to be barren of the unitized substances.

Exhibit "A" attached hereto is a map on which is outlined the herein established Unit Area, together with the ownership of the land and leases in said Area. Exhibit "B" attached hereto is a schedule showing the nature and extent of ownership of oil and gas rights in all land in the Unit Area to which this unit agreement will become applicable by signature hereto, or to a counterpart hereof by the owners of such rights, and hereinafter referred to as "unitized lands". Said exhibits shall be revised by the Unit Operator whenever any change in the Unit Area or ownership of rights render such change necessary, and the revised exhibits shall be filed with the record of this agreement.

UNITIZED
SUBSTANCES

4. All oil, gas, natural gasoline, and associated fluid hydrocarbons producible from land subject to this agreement, in any and all sands or horizons, are unitized under the terms of this agreement and hereinafter are called "unitized substances".

UNIT OPERATOR 5. The Potash Company of America, a Colorado Corporation with offices at Carlsbad, New Mexico, is hereby designated as Unit Operator and by signature hereto commits to this agreement all interests in unitized substances vested in it as set forth in the schedule attached hereto marked Exhibit B and agrees and consents to accept the duties and obligations of Unit Operator to conduct and manage the operation of said unit area for the discovery and development of unitized substances as herein provided. Herein whenever reference is made to the Unit Operator, such reference is understood to mean the unit operator acting in that capacity and not as an owner of interests in unitized substances, and whenever reference is made to an owner of unitized substances, such a reference shall be understood to include any interests in unitized substances owned by the Unit Operator.

The Unit Operator shall have the right to resign at any time provided that any well drilled hereunder is placed in a satisfactory condition for suspension, or is satisfactorily abandoned under the Federal Oil and Gas Operating Regulations, if on Federal land, and under the laws of the State of New Mexico, and the rules and regulations of the Commission, if on state or patented land, but no Unit Operator shall be relieved from the duties and obligations of Unit Operator for a period of three (3) months after notice of intention to relinquish such duties and obligations has been served by him on all other parties hereto and the Secretary and the Commissioner, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of the Unit Operator prior to the date on

which relinquishment by or removal of Unit Operator becomes effective. The parties hereto or a duly qualified new Unit Operator may purchase at its then depreciated market value all or any part of the equipment, material, and appurtenances in or upon the land subject to this agreement, owned by the retiring Unit Operator, in its capacity as such operator, or make other arrangements satisfactory to the retiring Unit Operator for the use thereof, provided that no such equipment, material, or appurtenances so selected for purchase shall be removed prior to the effective date of Unit Operator's retirement. Any equipment, material, and appurtenances not so purchased or arranged for as to the use thereof within said time limit and not necessary for the preservation of wells may be removed by the retiring Unit Operator at any time within six (6) months after his relinquishment or removal becomes effective, but if not so removed shall become the joint property of the owners of working interest rights in land then subject to this agreement. The termination of any rights as Unit Operator under this agreement shall not of itself terminate any right, title, or interest which the Unit Operator may then have in the unitized substances, but the Unit Operator shall have the right and option in connection with its resignation to reassign or retransfer to its several predecessors in interest all of its interest in the lands and leases severally acquired from them, together with its working interest in the unitized substances, and upon such delivery be discharged from any future liability as a working interest owner hereunder; said reassignments to be effective as to said transferee thereupon, subject, however, to the approval of the Secretary as to transfers of interest in lands of the United States and subject, however, to the approval of the Commissioner as to interests in lands of the State of New Mexico.

SUCCESSOR
UNIT
OPERATOR

6. Whenever the Unit Operator shall discontinue or relinquish his rights as Unit Operator or shall fail to fulfill his duties and obligations as Unit Operator under this agreement, the owners of the Majority of the unitized working interests in the participating area on an acreage basis, or the owners of working interests according to their total acreage interest in the unit area until a participating area shall have been established, shall select a new Unit Operator, provided that if the majority of the working interests rights which are at any time qualified to vote in selecting a new Unit Operator are owned by one party to this agreement then a vote of at least two owners of working interests qualified to vote shall be required to select a new operator. Such selections shall not become effective until (a) a Unit Operator so selected shall agree and consent in writing to accept the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Secretary and the Commissioner. In the absence of the selection of an acceptable Unit Operator by the working interest owners within (6) months after notice by Unit Operator of intention to relinquish its rights as Unit Operator, this unit agreement shall automatically terminate.

The Unit Operator shall be subject to removal by the Working Interest Owners in the same manner as herein provided for the selection of a new Unit Operator.

RIGHTS AND
OBLIGATIONS
OF
UNIT OPERATOR

7. Except as hereinafter specified, the exclusive right, privilege and duty of exercising any and all rights of the parties

signatory hereto which are necessary or convenient for prospecting for, producing, storing, and disposing of the unitized substances are hereby vested in the Unit Operator and shall be exercised by said Unit Operator as provided in this agreement. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define said Unit Operator's rights, privileges, and obligations in the premises; provided, that nothing herein shall be construed to transfer title to any land, or to any operating agreement or leases, it being understood that under and pursuant to this agreement the Unit Operator, in its capacity as Unit Operator shall exercise the rights of possession and use vested in the parties hereto only and exclusively for the purposes herein specified. The Unit Operator shall pay all costs and expenses of operations with respect to the unitized land, and no part thereof shall be charged to the royalty owners. The matter of allocation and handling such costs and expenses is left to private arrangement between the Unit Operator and the other working interest owners. The Unit Operator shall render to the owners of unitized interests entitled thereto an account of the operations on unitized lands during the previous calendar month, shall pay in value or deliver to each party entitled thereto a proportionate and allocated share of the products produced hereunder, and account for all costs and benefits of operations under this agreement in conformity with operating agreements, leases or other independent contracts between the Unit Operator and the parties hereto either collectively or independently.

The development and operation of land subject to this agreement under the terms hereof shall be deemed full performance by Unit Operator of all obligations for such development and operation with respect to each and every part or separately owned tract subject to this agreement, regardless of whether there is any development of any particular part or tract of the unit area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or any of them.

DRILLING
TO
DISCOVERY

8. Within six (6) months from the effective date of this agreement, Unit Operator shall begin operations in the unit area to drill an adequate test well at a location upon the Unit Area to be approved by the Supervisor, if such location is upon lands of the United States, and if upon State lands or patented lands, such location shall be approved by the Commission, and having commenced such operations shall continue such drilling diligently until said well shall have been drilled to a depth not less than 4000 feet unless oil or gas which can be produced in paying quantities is encountered in said well at a lesser depth or unless, at a lesser depth, an igneous or metamorphic formation or some other condition or formation is encountered which would render further drilling inadvisable or impracticable. If said first well, drilled as aforesaid, fails to encounter the unitized substances, Unit Operator or his successor shall thereupon commence within six (6) months after the completion of the former well, and drill, one at a time, additional wells until a productive well is

completed to the satisfaction of the Supervisor and Commissioner, or until it is reasonably proved that the unitized land is incapable of producing the unitized substances; provided that the Secretary and Commissioner may grant extension of time for the commencement of any such well; and provided further that nothing herein contained shall preclude any Operator from effectively resigning as provided in Section 5 hereof before any obligation to commence a second or subsequent well accrues hereunder, and be relieved of the obligation to commence such well. Upon failure to comply with the drilling requirements of this section the Secretary may, after reasonable notice, declare this unit agreement terminated.

PLAN OF FURTHER DEVELOPMENT AND OPERATION 9. Within sixty (60) days from completion of a well capable of producing the unitized substances as aforesaid, Unit Operator shall submit for the approval of the Supervisor, the Commissioner, and the Commission an acceptable plan of development for the Unit Area, which plan or a subsequent modification thereof, when so approved shall constitute the further drilling and operation obligations of Unit Operator. Reasonable diligence shall be exercised by the Unit Operator in complying with the drilling and producing obligations of the approved plan of development and said plan shall, subject to like approval be modified or supplemented in whole or in part from time to time as may be required to meet changed conditions or to protect the interests of all parties to this agreement and the further obligations of the Unit Operator shall be conformed thereto; provided that in no event shall the operator under any such plan, or otherwise, be under any obligation to drill any well to any formation that does not afford a fair possibility for encountering the unitized substances in paying quantities. Well drilling operations including well completions, producing practices and well abandonments, shall be in accordance with the Plan of Development and Operation. All operations thereunder shall be subject to the approval of the Supervisor as to wells on federal land and by the Commission for wells on state and private land.

During any period when it shall appear that an acceptable plan of development cannot be adopted because of the inability of the Supervisor, the Commissioner and the Commission to agree upon the terms thereof, the Unit Operator may, in accordance with the applicable regulations referred to in Section 1 hereof, proceed with reasonable diligence to drill other wells to determine the limits of production and to develop the productive portion of the unit area, and may and shall operate all productive wells in conformity with good operating practices, and the conservation principles of this agreement.

PARTICIPATION
AFTER
DISCOVERY

10. Upon completion of a productive well as aforesaid, Unit Operator shall submit for the approval of the Secretary, the Commissioner and the Commission a schedule of lands based on subdivisions of the public land survey, including all subdivisions one-half or more of the acreage of which is then regarded as reasonably proved to be productive of unitized substances in paying quantities; all land in said schedule, when approved, to constitute a participating area effective as of the date of first production. Said schedule shall set forth the percentage acreage interest of each owner of rights in the participating area thereby established. Such percentage acreage interest shall govern the allocation of production from and after the date the participating area becomes effective. With the approval of the Secretary, Commissioner and the Commission, a separate participating area may be established for any separate deposit of unitized substances or for any group of such deposits. The participating area or areas so established shall be enlarged

from time to time in like manner and subject to like approval whenever such action appears proper as a result of further drilling operations to include additional land then regarded as reasonably proved to be productive in paying quantities, and a new schedule of percentage acreage interests conformable thereto shall thereupon be fixed. The effective date of any such enlargement shall be the first of the month next following the month in which the well is completed which demonstrates the propriety of the enlargement, and any unitized substances theretofore produced from such well shall be allocated to the lease on which the well is drilled. A well shall be deemed completed when equipped and successfully tested for production, all of which shall be done diligently. No land once included in a participating area shall be excluded from such participating area on account of depletion of the unitized substances therefrom, or for any cause save loss of title. It is the intent of this Section that a participating area shall at all times represent as nearly as possible the area known or reasonably estimated to be productive in paying quantities; but, regardless of any increase in the participating area, nothing herein contained shall be construed as requiring any retroactive apportionment of any sums accrued or paid for production obtained prior to the effective date of increase of the participating area.

Until a participating area or areas has or have been established as herein-provided, or in the absence of agreement at any time between the Unit Operator, the Secretary, the Commissioner, and the Commission as to the proper boundaries of a participating area, the portion of all payments affected by such absence of agreement, except the royalties due the United States and the State of New Mexico, may be impounded in a mutually acceptable bank.

ALLOCATION OF
PRODUCTION --
ROYALTIES

11. Except as provided in Section 12, all unitized substances produced under this agreement, except any part thereof used for production and development purposes thereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of land of the participating area, and for the purpose of determining any benefits that accrue on an acreage basis as a result of operations under this agreement, each such tract shall have allocated to it such percentage of said production as its area bears to the said participating area. Unitized substances produced from any participating area and used in conformity with good operating practice under an approved plan of operation for repressuring or cycling in any participating area shall be free from any royalty charge. If Unit Operator introduces gas obtained from sources other than the unitized substances into any participating area hereunder for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan first approved by the Supervisor, the Commissioner and the Commission, a like amount of gas, with due allowance for loss or shrinkage thereof from any cause, may be drawn from the formation into which the gas was introduced, royalty free as to dry gas but not as to the products extracted therefrom, provided that such withdrawal shall be at such time as may be provided in the plan of operation or as may otherwise be consented to by the Supervisor, the Commissioner and the Commission, as conforming to good petroleum engineering practice, and provided further that such right of withdrawal shall terminate on the termination of the unit.

Except as otherwise herein provided, royalties shall be paid or delivered as provided by existing leases or contracts,

at the lease or contract rate upon the unitized substances allocated to the lease or tract. Settlement shall be made on or before the 20th day of each month for the unitized substances produced during the preceding calendar month. Such royalties shall be paid by the party operating the wells, but nothing herein shall operate to relieve the lessees, or any of them, of their obligation to pay rentals and royalties under the terms of their respective leases.

The right is hereby secured to the United States and the State of New Mexico under existing or future laws and regulations to elect to take their respective royalty shares in kind or value.

DEVELOPMENT 12. Any party hereto other than Unit
OR OPERATION
ON NON-PARTICI- Operator owning or controlling a major-
PATING LAND ity of the working interest rights in

any unitized tract included in the non-participating area having thereon a regular well location in accordance with a well-spacing pattern established under an approved plan of development and operation may drill a well at such location at his own expense, unless within 90 days of receipt of notice from said party of his intention to drill the well Unit Operator elects and commences to drill such well in like manner as other wells are drilled by Unit Operator under this agreement.

If such well is not drilled by Unit Operator and results in production such that the land upon which it is situated may properly be included in a participating area, the party paying the cost of drilling such well shall be reimbursed one hundred fifty percent (150%) of the average cost of drilling similar producing wells in the unitized area, and the well

shall be operated pursuant to the terms of this agreement all as though the well had been drilled by the Unit Operator.

If any well drilled by Unit Operator or by an owner of working interest rights as provided in this section obtains production insufficient to justify inclusion in a participating area of the land on which said well is situated, said owner of working interests at his election, within 30 days of determination of such insufficiency, shall be wholly responsible for and may operate and produce the well at his sole expense and for his sole benefit. If such well was drilled by Unit Operator, said owner of working interests shall pay the Unit Operator a fair salvage-value price for the casing and other equipment left in the well.

Wells drilled at the sole expense of any party other than Unit Operator or produced at his sole expense and for his sole benefit shall be subject to the drilling and producing requirements of this agreement the same as though drilled or produced by Unit Operator; and royalties in amount or value of production from any such well as well as rental charges, if any, shall be paid as specified in the lease affected, unless otherwise authorized in writing by the lessor.

RENTAL AND
ROYALTY
PAYMENTS

13. The Unit Operator, on behalf of the respective lessees, shall pay, or at the election of the Secretary of the Interior as to Federal leases and at the election of the Commissioner as to State leases shall deliver in kind, all royalties and shall pay all rentals due the United States and the State of New Mexico respectively, on account of operations by Unit Operator on unitized land and shall distribute the cost

thereof to the appropriate parties conformably with their respective rental and royalty obligations; provided, that nothing herein contained shall operate to relieve the lessees, or any of them, of their obligation to pay rentals and royalties under the terms of their respective leases.

On request of any party, Unit Operator at its election shall pay other royalties on his behalf in accordance with a schedule furnished by him and charge the cost thereof to his account; provided, that Unit Operator shall incur thereby no responsibility to any royalty owner, but such responsibility shall be and remain an obligation of the parties requesting payment thereof.

GOVERNMENT
ROYALTIES
AND RENTALS

14. Royalty due the United States on account of unitized Federal land shall be computed as provided in the operating regulations and paid as to all unitized substances on the basis of the amounts thereof allocated to such land as provided herein at the rates specified in the respective Federal leases; provided, that, for leases on which the royalty rate depends on the daily average production per well, said average production for any participating area shall be determined in accordance with the operating regulations as though all the unitized land within the same participating area were a single consolidated lease, and provided that during the period of the national emergency declared by the President May 27, 1941, Proclamation No. 2487, 55 Stat. 1647, upon a determination by the Secretary of the Interior that a new oil or gas field or deposit has been discovered by virtue of a well or wells drilled under this agreement, the royalty on production from such new field or

deposit allocated to Federal land subject to this agreement at the time of such discovery shall, during the 10-year period following the date of such discovery, be paid in value or delivered in kind at a flat rate of $12\frac{1}{2}$ per centum unless a lower rate is prescribed in the lease.

Rental for land of the United States subject to this agreement at the rates specified in the respective Federal leases shall be paid, suspended, or reduced as determined by the Secretary of the Interior, pursuant to applicable law and regulations.

CONSERVATION 15. Operations and production of unitized substances shall be conducted so as to provide for the most economical and efficient recovery of said substances to the end that maximum yield may be obtained without waste, as defined by or pursuant to State or Federal law or regulation; and shall be limited to such production as can be put to beneficial use with adequate realization of fuel and other values.

DRAINAGE 16. Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, or, with the approval of the Secretary as to federal interests and of the Commissioner as to state interests, and at the election of the Unit Operator as to private interests, pay a fair and reasonable compensatory royalty, as determined by the Supervisor as to federal interests, and the Commissioner as to state interests subject to this agreement and by agreement between the Unit Operator and royalty owners, as to private interests.

LEASES AND CON-
TRACTS CONFORMED
TO AGREEMENT

17. The parties hereto or consenting hereto holding interests in leases embracing unitized land of the United States or of the State of New Mexico consent that the Secretary and Commissioner, respectively, may, and said Secretary and Commissioner, by their approval of this agreement, do hereby establish, alter, change or revoke the drilling, producing, and royalty requirements of such leases and the regulations in respect thereto, to conform said requirements to the provisions of this agreement, but otherwise the terms and conditions of said leases shall remain in full force and effect.

Owners and lessors of privately owned lands or of interests therein, including royalty interests, and including their heirs, executors, administrators, successors and assigns, by subscribing or consenting to this agreement, in person or by attorney in fact, do hereby severally agree that the respective leases covering their several lands or interests therein, may be and remain in force and effect for the respective primary terms therein stated, and so long thereafter as oil or gas may be produced therefrom in quantities sufficient to justify the cost of production; and also in the event that any of the land embraced in any such lease is during the primary term of such lease included within a participating area duly selected and approved under this unit plan of development, so that each owner becomes entitled to a share in the proceeds of production from the participating area, payable at the respective lease rates on the production allocated on an acreage basis to the portion of the lease within the participating area, then each such lease is hereby extended, without

further delay rental obligation, as to the land embraced therein which is so included in such participating area, for the full term of this unit plan as herein stated.

The Secretary, Commissioner and, except as otherwise provided in the preceding paragraph of this Section, all parties hereto further determine, agree and consent that during the effective life of this agreement, drilling and producing operations performed by the Unit Operator upon any unitized land will be accepted and deemed to be operations under and for the benefit of all unitized leases subject hereto; that no such lease shall be deemed to expire by reason of failure to produce wells situated on land therein embraced; that if a discovery of a valuable deposit of unitized substances is made anywhere on the unitized land, each such lease in effect on or after the date of such discovery shall be deemed to continue in force and effect as to land in the unit area, as long as unitized substances are produced anywhere on unitized land in paying quantity; that prior to such discovery of unitized substances anywhere on unitized land, the expiration date of each unitized lease embracing lands of the United States shall be the date prescribed in such lease subject to such preferential right to a new lease as may be authorized by law; and the suspension of all operations and production on the unitized land pursuant to direction or consent of said Secretary and Commissioner shall be deemed to constitute such suspension pursuant to such direction or consent with respect to each such lease, and that no lease shall expire on account of such suspension, as to land in the unit area.

The parties hereto or consenting hereto, holding interests in leases subject to this agreement embracing

lands other than those of the United States or of the State of New Mexico or holding interests in any other agreements that involve oil and gas rights in lands in the Unit Area, consent and agree, to the extent of their respective interests, that all such leases and agreements shall conform to the provisions of this agreement.

COVENANTS
RUN
WITH LAND

18. The covenants herein run with the land until this agreement terminates, and any grant, transfer or lease of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, lessee, or other successor in interest and as to federal land, shall be subject to approval by the Secretary, and as to lands of the State of New Mexico, shall be subject to the approval of the Commissioner. No transfer of any interest in and to any of the unitized lands or affecting the production therefrom shall be binding upon the Unit Operator until the first day of the next calendar month after the Unit Operator has been furnished with an original, photostatic or certified copy of the instrument of transfer.

EFFECTIVE
DATE
AND TERM

19. This agreement shall become effective on the first day of the calendar month next following approval by the Secretary of the Interior and the Commissioner, provided however that nothing herein shall be construed to waive or limit the right of the Commission to approve this agreement pursuant to applicable state law. Except as otherwise provided as to private leases by the second paragraph of Section 17 hereof, this agreement shall terminate on December 31, 1949, unless (1) such date of

expiration is extended by the Secretary and the Commissioner; or (2) a valuable discovery of unitized substances has been made on unitized land, in which case the agreement shall remain in effect as long as unitized substances can be produced from the unitized land in paying quantities; or (3) it is reasonably determined at an earlier date that the unitized land is incapable of commercial production of unitized substances, and, with approval of the Secretary and the Commissioner, notice of termination is given by Unit Operator to all parties in interest at their last known address; or (4) it is terminated as provided in sections 6 or 8 hereof; provided that this agreement may be terminated at any time by consent of the owners of 75 per centum, on an acreage basis, of the owners of working interests signatory hereto with the approval of the Secretary and the Commissioner.

RATE OF PROSPECT- ,20. All production and the disposal
ING, DEVELOPMENT,
AND PRODUCTION thereof, shall be in conformity
with allocations, allotments and quotas made or fixed by
the Commission under any State Statute; provided however
that the Secretary is vested with authority pursuant to
the amendatory acts of Congress of March 4, 1931, and
August 21, 1935, supra, to alter or modify from time to
time in his discretion the rate of prospecting and develop-
ment, and, within the limits made or fixed by the Commission
to modify the quantity and rate of production under this
agreement, such authority being hereby limited to alteration
or modification in the public interest, the purpose thereof

and the public interest to be served thereby to be stated in the order of alteration or modification; provided further that no such alteration or modification shall be effective as to any lands of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

UNAVOIDABLE
DELAY

21. All obligations under this agreement requiring Unit Operator to commence or continue drilling or to operate on or produce oil or gas from any of the lands covered by this agreement shall be suspended while, but only as long as, the Unit Operator is prevented from complying with such obligations, in whole or in part, by strikes, lockouts, acts of God, Federal, State or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to the matters herein enumerated or not.

CONFLICT
OF
SUPERVISION

22. Neither the Unit Operator nor the working Interest Owners nor any of them shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability for delay or failure in whole or in part to comply therewith to the extent that said Unit Operator, Working Interest Owners or any of them are hindered, delayed, or prevented from complying therewith

by reason of failure of Unit Operator to obtain the joint consent of the representatives of the United States and the representatives of the State of New Mexico in and about any matter or thing concerning which it is required herein that such joint consent be obtained. The parties hereto and consenting hereto, including the Commission agree that all powers and authority vested in the Commission in and by any provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

NON-
DISCRIMINATION

23. The Unit Operator expressly agrees that in any and all operations conducted hereunder, it shall not discriminate against any employee or applicant for employment because of race, creed, color, or national origin and shall require an identical provision to be included in all subcontracts.

SUBSEQUENT
JOINDER

24. Any person owning rights in the unitized substances within the unit area who does not commit such rights hereto prior to the effective date hereof, may thereafter become parties hereto by subscribing this agreement, and if such parties are working interest owners they shall also subscribe the operating contract and comply with all terms and conditions therein set forth.

COUNTERPARTS

25. This agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

Date

Date _____

Date

Date

Date

Date

Date _____

Date _____

Date

Date _____

Date _____

Date

APPROVAL - CERTIFICATION - DETERMINATION

Pursuant to the Statutory authority in the Secretary of the Interior, under the act approved March 4, 1931, 46 Stat. 1523, and the act approved August 21, 1935, 49 Stat. 674, amending the act approved February 25, 1920, 41 Stat. 437; 30 U. S. C. 226, 184 and 189, in order to secure the proper protection of the public interest, I, _____, Secretary of the Interior, this ____ day of _____, 19__, hereby take the following action:

- A. Approve the attached agreement for the development and operation of the Rocky Arroyo Unit Area.
- B. Determine and certify that the plan of development and operation contemplated in said agreement is for the purpose of more properly conserving oil or gas resources of said unit area and is necessary or advisable in the public interest.
- C. Certify that each and every lease heretofore or hereafter issued for lands of the United States subject to, or which may hereafter become subject to, said agreement shall be excepted in determining holdings or control under the provisions of any section of the Act of Congress approved February 25, 1920, and amendments thereto.

Secretary of the Interior

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 194____, before me personally appeared _____, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that _____ he _____ executed the same as _____ free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

My commission expires _____ Notary Public

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 194____, before me personally appeared _____, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that _____ he _____ executed the same as _____ free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

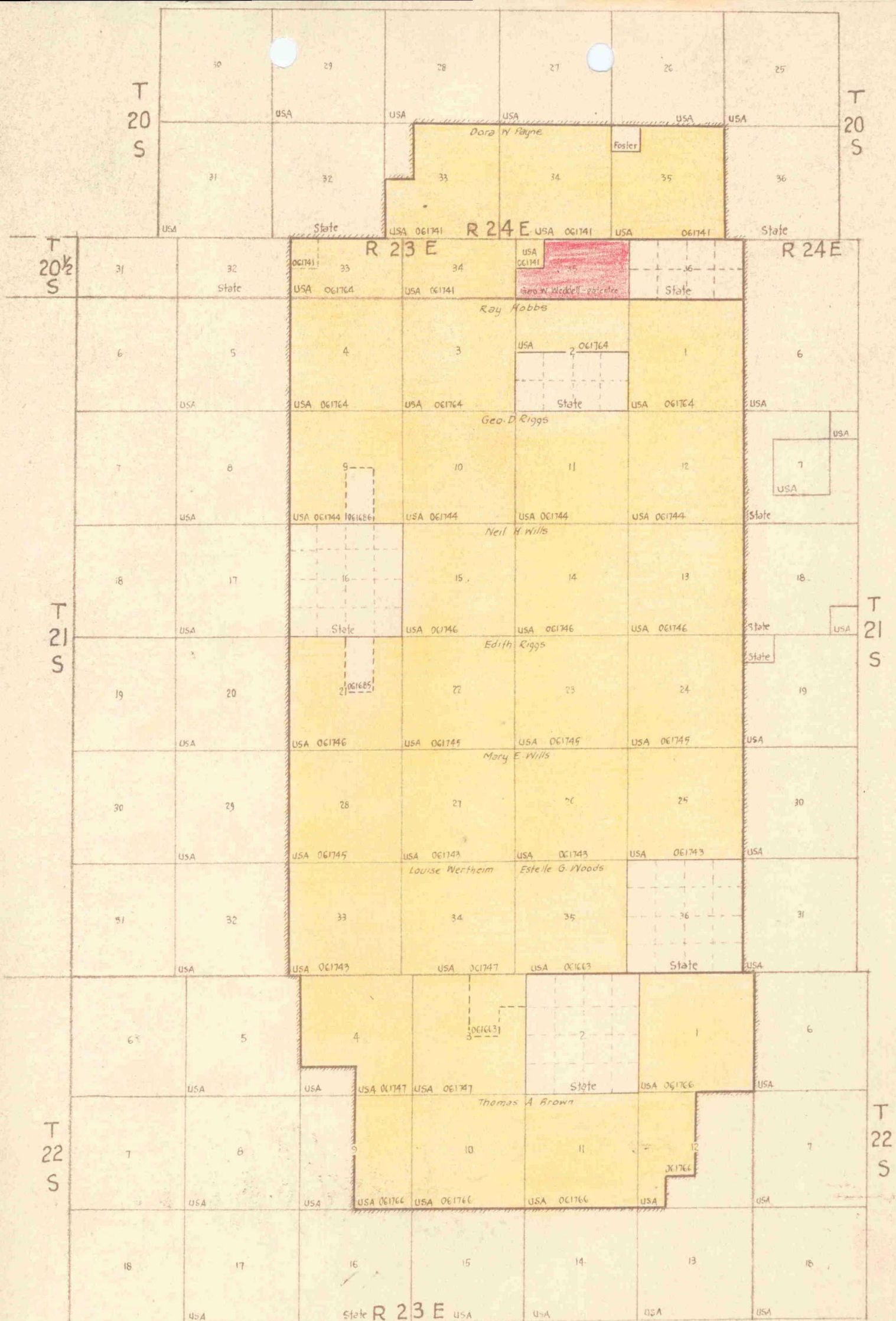
My commission expires: _____ Notary Public

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 194____, before me personally appeared _____, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that _____ he _____ executed the same as _____ free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

My commission expires: _____ Notary Public



ROCKY ARROYO UNIT

Eddy County, N. M.
June 1946

1 inch = 1 mile
EXHIBIT "A"

UNIT AREA

Committed

Non
Committed



Federal
State
Patented



CLASS	ACRES	%
Federal	20,121.76	87.34
State	2,649.71	11.39
Patented	298.82	1.29

EXHIBIT "B"

Rocky Arroyo Unit Agreement, Eddy County,
New MexicoSchedule Showing the Nature and Extent of Ownership
of oil and gas Rights in All Lands in the Unit AreaFEDERAL LANDS

<u>Description</u>	<u>No. of Acres</u>	<u>Las Cruces Serial No.</u>	<u>Ownership of Application or Oil and Gas Lease</u>
<u>T-20S, R-24E.</u>			
Section 33 E $\frac{1}{2}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$, S $\frac{1}{2}$	560	061741	Dora W. Payne
Section 34 All	640	061741	Dora W. Payne
Section 35 NE $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$ S $\frac{1}{2}$	600	061741	Dora W. Payne
<u>T-20$\frac{1}{2}$S, R-23E</u>			
Section 33 Lot 4	45.27	061741	Dora W. Payne
Balance of Fractional Section 33	296.37	061764	Ray Hobbs
Section 34 All a fractional Section	343.42	061741	Dora W. Payne
Section 35 Lot 4	46.10	061741	Dora W. Payne
<u>T-21S, R-23E</u>			
Section 1 All	639.48	061764	Ray Hobbs
Section 2 N $\frac{1}{2}$	320.28	061764	Ray Hobbs
Section 3 All	640.56	061764	Ray Hobbs
Section 4 All	641.04	061764	Ray Hobbs
Section 9 N $\frac{1}{2}$, SW $\frac{1}{4}$, E $\frac{1}{2}$ SE $\frac{1}{4}$	560	061744	George D. Riggs
W $\frac{1}{2}$ SE $\frac{1}{4}$	80	061686	James F. Warden
Section 10 All	640	061744	George D. Riggs

<u>Description</u>	<u>No. of Acres</u>	<u>Las Cruces Serial No.</u>	<u>Ownership of Application or Oil and Gas Lease</u>
<u>T-21S., R-23E (Cont.)</u>			
Section 11			
All	640	061744	George D. Riggs
Section 12			
All	640	061744	George D. Riggs
Section 13			
All	640	061746	Neil H. Wills
Section 14			
All	640	061746	Neil H. Wills
Section 15			
All	640	061746	Neil H. Wills
Section 21			
W $\frac{1}{2}$, E $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$	560	061746	Neil H. Wills
W $\frac{1}{2}$ NE $\frac{1}{4}$	80	061685	Smith, et al
Section 22			
All	640	061745	Edith Riggs
Section 23			
All	640	061745	Edith Riggs
Section 24			
All	640	061745	Edith Riggs
Section 25			
All	640	061743	Mary E. Wills
Section 26			
All	640	061743	Mary E. Wills
Section 27			
All	640	061743	Mary E. Wills
Section 28			
All	640	061745	Edith Riggs
Section 33			
All	640	061743	Mary E. Wills
Section 34			
All	640	061747	Louise Wertheim
Section 35			
All	640	061663	Estelle G. Woods
<u>T-22S., R.23E</u>			
Section 1			
All	673.32	061766	Thomas A. Brown
Section 3			
N $\frac{1}{2}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$	138.19	061663	Estelle G. Woods
NW $\frac{1}{4}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, S $\frac{1}{2}$	538.97	061747	Louise Wertheim

<u>Description</u>	<u>No. of Acres</u>	<u>Las Cruces Serial No.</u>	<u>Ownership of Application or Oil and Gas Lease</u>
<u>T-22S, R-23E (Cont.)</u>			
Section 4			
N $\frac{1}{2}$, N $\frac{1}{2}$ S $\frac{1}{2}$, S $\frac{1}{2}$ SE $\frac{1}{4}$	598.76	061747	Louise Wertheim
Section 9			
E $\frac{1}{2}$	320	061766	Thomas A. Brown
Section 10			
All	640	061766	Thomas A. Brown
Section 11			
All	640	061766	Thomas A. Brown
Section 12			
NW $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$	280	061766	Thomas A. Brown

STATE LANDS

<u>Description</u>	<u>No. of Acres</u>	<u>State Lease No. and Exp. Date</u>	<u>Oil and Gas Lease Ownership</u>
<u>T-20$\frac{1}{2}$S, R.23E</u>			
Section 36			
NW $\frac{1}{4}$ SW $\frac{1}{4}$	46.39	B-10255-11 Exp. 4-26-53	Atkins S. Hopkins Cambridge, Mass.
NE $\frac{1}{4}$ SW $\frac{1}{4}$	46.36	B-9093-1 Exp. 4-15-51	Maurice Schwartz El Paso, Texas
SW $\frac{1}{4}$ SW $\frac{1}{4}$	40	E-487 Exp. 8-10-55	Potash Co. of America Carlsbad, New Mexico
SE $\frac{1}{4}$ SW $\frac{1}{4}$	40	B-10061-5 Exp. 2-9-53	Alex Lunvall Cascade, Idaho
Lots 1 & 2	92.64	E-487 Exp. 8-10-55	Potash Co. of America
SW $\frac{1}{4}$ SE $\frac{1}{4}$	40	B-10898-1 Exp. 1-7-54	W. W. Simon Superior, Arizona
SE $\frac{1}{4}$ SE $\frac{1}{4}$	40	B-10061-2 Exp. 2-9-53	John P. Basner Pontiac, Mich.
<u>T-21S, R-23E.</u>			
Section 2			
NW $\frac{1}{4}$ SW $\frac{1}{4}$	40	B-8462-1 Exp. 1-5-50	Addie P. Reynolds Los Angeles, Calif.
NE $\frac{1}{4}$ SW $\frac{1}{4}$	40	B-8890-17 Exp. 11-25-50	W. L. Tedford Little Rock, Ark.
SW $\frac{1}{4}$ SW $\frac{1}{4}$	40	B-8225-4 Exp. 6-22-49	Olive F. Smith Holly Hill, Fla.
SE $\frac{1}{4}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$	80	B-11554-Orig. Exp. 10-10-54	J. S. Harris Oklahoma City, Okla.

<u>Description</u>	<u>No. of Acres</u>	<u>State Lease No. and Exp. Date</u>	<u>Oil and Gas Lease Ownership</u>
T-21S, R-23E. (Cont.)			
Section 2			
NW $\frac{1}{4}$ SE $\frac{1}{4}$	40	B-8851-19 Exp. 10-22-50	W. L. Tedford Little Rock, Ark.
NE $\frac{1}{4}$ SE $\frac{1}{4}$	40	B-9425-28 Exp. 12-4-51	J. T. Boswell & S. J. Dooley, Kewanee, Ill.
SW $\frac{1}{4}$ SE $\frac{1}{4}$	40	E-487 Exp. 8-10-55	Potash Co. of America Carlsbad, New Mexico
Section 16			
NW $\frac{1}{4}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$ NE $\frac{1}{4}$	80	B-10730-24 Exp. 10-15-53	M. C. Parrish, Jr. Artesia, New Mexico
NE $\frac{1}{4}$ NW $\frac{1}{4}$	40	B-10404-9 Exp. 6-22-53	Charles Curren Gonzales, Calif.
SW $\frac{1}{4}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$	80	B-9141-1 Exp. 5-14-51	L. E. Stokes El Paso, Texas
SE $\frac{1}{4}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$	80	B-10806-25 Exp. 11-15-53	A. B. Nicholson St. Louis, Mo.
NW $\frac{1}{4}$ NE $\frac{1}{4}$	40	B-8021-11 Exp. 2-15-49	Roy F. Wyatt Esparto, Calif.
SW $\frac{1}{4}$ NE $\frac{1}{4}$	40	B-10806-29 Exp. 11-15-53	Edward B. Hobart Greenfield, Mass.
SE $\frac{1}{4}$ NE $\frac{1}{4}$	40	B-10806-30 Exp. 11-15-53	J. R. West Kansas City, Kansas
N $\frac{1}{2}$ SW $\frac{1}{4}$	80	E-487 Exp. 8-10-55	Potash Co. of America
SE $\frac{1}{4}$ SW $\frac{1}{4}$	40	B-8852-2 Exp. 10-23-50	Leo Monsen El Paso, Texas
NE $\frac{1}{4}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$ SE $\frac{1}{4}$ SE $\frac{1}{4}$	120	B-8978-1 Exp. 2-8-51	Maurice Schwartz El Paso, Texas
Section 36			
NW $\frac{1}{4}$ NW $\frac{1}{4}$	40	E-487 Exp. 8-10-55	Potash Co. of America Carlsbad, New Mexico
NE $\frac{1}{4}$ NW $\frac{1}{4}$	40	B-9663-20 Exp. 5-27-52	M. C. Parrish, Jr. Artesia, New Mexico
SW $\frac{1}{4}$ NW $\frac{1}{4}$	40	B-9377-14 Exp. 11-7-51	Joseph M. Ribas Syracuse, N.Y.
SE $\frac{1}{4}$ NW $\frac{1}{4}$	40	B-10730-24 Exp. 10-15-53	M. C. Parrish, Jr. Artesia, New Mexico
NW $\frac{1}{4}$ NE $\frac{1}{4}$	40	B-9542-Orig. Exp. 2-20-52	J. E. Farrell Ft. Worth, Texas

<u>Description</u>	<u>No. of Acres</u>	<u>State Lease No. and Exp. Date</u>	<u>Oil and Gas Lease Ownership</u>
<u>T-21S, R-23E. (Cont.)</u>			
Section 36			
NE $\frac{1}{4}$ NE $\frac{1}{4}$	40	B-10191-12 Exp. 3-31-53	M. C. Parrish, Jr. Artesia, New Mexico
SW $\frac{1}{4}$ NE $\frac{1}{4}$	40	B-11117-2 Exp. 3-4-54	Flora C. Hotchkis Los Angeles, Calif.
SE $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$	80	B-10899-4 Exp. 1-7-54	Harley Lorensen Sheffield, Ill.
N $\frac{1}{2}$ SW $\frac{1}{4}$	80	B-9663-11 Exp. 5-27-52	Grace Hoxsey Davenport, Iowa
S $\frac{1}{2}$ SW $\frac{1}{4}$	80	B-9663-11 Exp. 5-27-52	Grace Hoxsey Davenport, Iowa
NW $\frac{1}{4}$ SE $\frac{1}{4}$	40	B-8978-1 Exp. 2-8-51	Maurice Schwartz El Paso, Texas
NE $\frac{1}{4}$ SE $\frac{1}{4}$	40	E-487 Exp. 8-10-55	Potash Co. of America Carlsbad, New Mexico
SE $\frac{1}{4}$ SE $\frac{1}{4}$	40	B-9983-Orig. Exp. 12-29-52	Roy G. Barton Hobbs, New Mexico
<u>T-22S, R-23E</u>			
Section 2			
NW $\frac{1}{4}$ NW $\frac{1}{4}$	48.82	B-8515-20 Exp. 2-7-50	John Z. Broek Holland, Mich.
NE $\frac{1}{4}$ NW $\frac{1}{4}$	48.69	B-8515-21 Exp. 2-7-50	Abbie Lenock Chicago, Ill.
S $\frac{1}{2}$ NW $\frac{1}{4}$	80	B-9413-12 Exp. 11-18-51	J. W. Struthers Colorado Springs, Colo.
NW $\frac{1}{4}$ NE $\frac{1}{4}$	48.49	B-8515-35 Exp. 2-7-50	Norma Weiss Los Angeles, Calif.
NE $\frac{1}{4}$ NE $\frac{1}{4}$	48.32	B-8515-34 Exp. 2-7-50	J. C. Litton Los Angeles, Calif.
SW $\frac{1}{4}$ NE $\frac{1}{4}$	40	B-9373-9 Exp. 10-30-51	J. T. Boswell & S. J. Dooley Kewanee, Ill.
SE $\frac{1}{4}$ NE $\frac{1}{4}$	40	B-8515-18 Exp. 2-7-50	Gertrude B. Markin Brecksville, Ohio
NW $\frac{1}{4}$ SW $\frac{1}{4}$	40	B-10895-5 Exp. 1-7-54	Charles S. Sejnoha Chicago, Ill.
NE $\frac{1}{4}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$ SE $\frac{1}{4}$	120	B-9413-11 Exp. 11-18-51	Dr. W. B. Wise Sheffield, Ill.

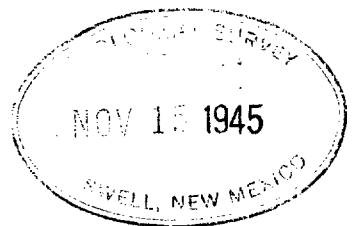
<u>Description</u>	<u>No. of Acres</u>	<u>State Lease No. and Exp. Date</u>	<u>Oil and Gas Lease Ownership</u>
<u>T-22S, R-23E.</u> <u>Section 2</u>			
SW $\frac{1}{4}$ SW $\frac{1}{4}$	40	B-10044-2 Exp. 1-18-53	Robert E. McKee El Paso, Texas
NW $\frac{1}{4}$ SE $\frac{1}{4}$	40	B-8515-7 Exp. 2-7-50	Sophie K. & Henrietta B. Schenck, New Brunswick, N.J.
NE $\frac{1}{4}$ SE $\frac{1}{4}$	40	B-9425-14 Exp. 12-4-51	E. E. Bowman Alhambra, Calif.
SE $\frac{1}{4}$ SE $\frac{1}{4}$	40	B-9425-17 Exp. 12-4-51	Herman Flender Superior, Arizona

PRIVATELY OWNED LANDS

<u>Description</u>	<u>No. of Acres</u>	<u>Ownership</u>
<u>T-20$\frac{1}{2}$S, R-23E.</u> <u>Section 35</u>		
All except Lot 4	298.82	Uncertain, not leased.
Total	23,640.29 acres	

I-Sec.No.432

UNIT AGREEMENT



FOR THE DEVELOPMENT AND OPERATION OF THE ROCKY ARROYO UNIT AREA
EDDY COUNTY STATE OF NEW MEXICO

I. Sec. No. _____

This agreement, entered into, as of the 13th day of September, 1945, by and between the parties subscribing or consenting hereto,

W-I-T-N-E-S-S-E-T-H:

WHEREAS, the parties hereto are the owners of operating, royalty, or other oil or gas interests in the unit area subject to this agreement;

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent avoidable waste, and secure other benefits obtainable through development and operation of the unit area subject to this agreement under and pursuant to the provisions of sections 17, 27, and 32 of the Act of Congress approved February 25, 1920, entitled "An Act to promote the mining of coal, phosphate, oil, oil shale, gas and sodium on the public domain, "41 Stat. 443, 448, 450, as amended or supplemented by the acts of March 4, 1931, 46 Stat. 1523, and August 21, 1935, 49 Stat. 676; 30 U.S.C. 226, 184 and 189;

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Chap. 88, Laws 1943) to consent to or approve this agreement on behalf of the state of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by an Act of the Legislature (Chap. 72, Laws 1935) to approve this agreement and the conservation provisions hereof;

NOW, THEREFORE, for and in consideration of the premises and the promises hereinafter contained, the parties subscribing hereto and the parties consenting hereto agree as follows:

ENABLING ACT 1. The act of February 25, 1920, supra, as
 AND
REGULATIONS amended, and all pertinent regulations heretofore and all pertinent and reasonable regulations hereafter issued thereunder, and not inconsistent with the provisions hereof, including operating regulations, are accepted and made a part of this agreement. Likewise, the Act of the Legislature of the State of New Mexico (Chap. 88, Laws 1943) and the Act of the Legislature of the State of New Mexico (Chap. 72, Laws 1935) and all pertinent regulations issued under the latter Act are hereby accepted and made part of this agreement.

DEFINITIONS 2. For all purposes of this agreement,
 certain terms used herein are defined
as follows:

(a) "Secretary" shall mean the Secretary of the Interior of the United States and those persons or agencies duly authorized to act for and in his behalf.

(b) "Supervisor" shall mean the Oil and Gas Supervisor of the United States Geological Survey and those persons or agencies duly authorized to act for and in his behalf.

(c) "Commissioner" shall mean the Commissioner of Public Lands of the State of New Mexico.

(d) "Commission" shall mean the Oil Conservation Commission of the State of New Mexico and those persons duly authorized to act for and in its behalf.

UNIT AREA

3. The following described lands are hereby designated and recognized as constituting the unit area:

E $\frac{1}{2}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$, and S $\frac{1}{2}$ Section 33, All of Sections 34 and 35, Township 20 South, Range 24 East, All of fractional Sections 33, 34, 35 and 36, Township 20 $\frac{1}{2}$ South, Range 23 East. All of Sections 1, 2, 3, 4, 9, 10, 11, 12, 13, 14, 15, 16, 21, 22, 23, 24, 25, 26, 27, 28, 33, 34, 35, and 36, Township 21 South, Range 23 East, All of Sections 1, 2, 3, N $\frac{1}{2}$ and N $\frac{1}{2}$ S $\frac{1}{2}$, S $\frac{1}{2}$ SE $\frac{1}{4}$ Section 4, E $\frac{1}{2}$ Section 9, All of Sections 10 and 11, SW $\frac{1}{4}$ SW $\frac{1}{4}$ and N $\frac{1}{2}$ SW $\frac{1}{4}$ and NW $\frac{1}{4}$ Section 12, Township 22 South, Range 23 East, N.M.P.M., Eddy County, New Mexico.

The Unit Operator, with the consent of a majority in interest of the Working Interest Owners, and subject to the approval of the Secretary, the Commissioner and the Commission, may enlarge the unit area to include other lands believed to be commercially productive of the unitized substances, or shall, subject to approval of the Secretary, the Commissioner and the Commission, diminish the unit area to exclude lands not in any participating area hereunder believed to be barren of the unitized substances.

Exhibit "A" attached hereto is a map on which is outlined the herein established Unit Area, together with the ownership of the land and leases in said Area. Exhibit "B" attached hereto is a schedule showing the nature and extent of ownership of oil and gas rights in all land in the Unit Area to which this unit agreement will become applicable by signature hereto, or to a counterpart hereof by the owners of such rights, and hereinafter referred to as "unitized lands". Said exhibits shall be revised by the Unit Operator whenever any change in the Unit Area or ownership of rights render such change necessary, and the revised exhibits shall be filed with the record of this agreement.

UNITIZED
SUBSTANCES

4. All oil, gas, natural gasoline, and associated fluid hydrocarbons producible from land subject to this agreement, in any and all sands or horizons, are unitized under the terms of this agreement and hereinafter are called "unitized substances".

UNIT OPERATOR 5. The Potash Company of America, a Colorado Corporation with offices at Carlsbad, New Mexico, is hereby designated as Unit Operator and by signature hereto commits to this agreement all interests in unitized substances vested in it as set forth in the schedule attached hereto marked Exhibit B and agrees and consents to accept the duties and obligations of Unit Operator to conduct and manage the operation of said unit area for the discovery and development of unitized substances as herein provided. Herein whenever reference is made to the Unit Operator, such reference is understood to mean the unit operator acting in that capacity and not as an owner of interests in unitized substances, and whenever reference is made to an owner of unitized substances, such a reference shall be understood to include any interests in unitized substances owned by the Unit Operator.

The Unit Operator shall have the right to resign at any time provided that any well drilled hereunder is placed in a satisfactory condition for suspension, or is satisfactorily abandoned under the Federal Oil and Gas Operating Regulations, if on Federal land, and under the laws of the State of New Mexico, and the rules and regulations of the Commission, if on state or patented land, but no Unit Operator shall be relieved from the duties and obligations of Unit Operator for a period of three (3) months after notice of intention to relinquish such duties and obligations has been served by him on all other parties hereto and the Secretary and the Commissioner, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of the Unit Operator prior to the date on

which relinquishment by or removal of Unit Operator becomes effective. The parties hereto or a duly qualified new Unit Operator may purchase at its then depreciated market value all or any part of the equipment, material, and appurtenances in or upon the land subject to this agreement, owned by the retiring Unit Operator, in its capacity as such operator, or make other arrangements satisfactory to the retiring Unit Operator for the use thereof, provided that no such equipment, material, or appurtenances so selected for purchase shall be removed prior to the effective date of Unit Operator's retirement. Any equipment, material, and appurtenances not so purchased or arranged for as to the use thereof within said time limit and not necessary for the preservation of wells may be removed by the retiring Unit Operator at any time within six (6) months after his relinquishment or removal becomes effective, but if not so removed shall become the joint property of the owners of working interest rights in land then subject to this agreement. The termination of any rights as Unit Operator under this agreement shall not of itself terminate any right, title, or interest which the Unit Operator may then have in the unitized substances, but the Unit Operator shall have the right and option in connection with its resignation to reassign or retransfer to its several predecessors in interest all of its interest in the lands and leases severally acquired from them, together with its working interest in the unitized substances, and upon such delivery be discharged from any future liability as a working interest owner hereunder; said reassignments to be effective as to said transferee thereupon, subject, however, to the approval of the Secretary as to transfers of interest in lands of the United States and subject, however, to the approval of the Commissioner as to interests in lands of the State of New Mexico.

SUCCESSOR
UNIT
OPERATOR

6. Whenever the Unit Operator shall discontinue or relinquish his rights as Unit Operator or shall fail to fulfill his duties and obligations as Unit Operator under this agreement, the owners of the Majority of the unitized working interests in the participating area on an acreage basis, or the owners of working interests according to their total acreage interest in the unit area until a participating area shall have been established, shall select a new Unit Operator, provided that if the majority of the working interests rights which are at any time qualified to vote in selecting a new Unit Operator are owned by one party to this agreement then a vote of at least two owners of working interests qualified to vote shall be required to select a new operator. Such selections shall not become effective until (a) a Unit Operator so selected shall agree and consent in writing to accept the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Secretary and the Commissioner. In the absence of the selection of an acceptable Unit Operator by the working interest owners within (6) months after notice by Unit Operator of intention to relinquish its rights as Unit Operator, this unit agreement shall automatically terminate.

The Unit Operator shall be subject to removal by the Working Interest Owners in the same manner as herein provided for the selection of a new Unit Operator.

RIGHTS AND
OBLIGATIONS
OF
UNIT OPERATOR

7. Except as hereinafter specified, the exclusive right, privilege and duty of exercising any and all rights of the parties

signatory hereto which are necessary or convenient for prospecting for, producing, storing, and disposing of the unitized substances are hereby vested in the Unit Operator and shall be exercised by said Unit Operator as provided in this agreement. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define said Unit Operator's rights, privileges, and obligations in the premises; provided, that nothing herein shall be construed to transfer title to any land, or to any operating agreement or leases, it being understood that under and pursuant to this agreement the Unit Operator, in its capacity as Unit Operator shall exercise the rights of possession and use vested in the parties hereto only and exclusively for the purposes herein specified. The Unit Operator shall pay all costs and expenses of operations with respect to the unitized land, and no part thereof shall be charged to the royalty owners. The matter of allocation and handling such costs and expenses is left to private arrangement between the Unit Operator and the other working interest owners. The Unit Operator shall render to the owners of unitized interests entitled thereto an account of the operations on unitized lands during the previous calendar month, shall pay in value or deliver to each party entitled thereto a proportionate and allocated share of the products produced hereunder, and account for all costs and benefits of operations under this agreement in conformity with operating agreements, leases or other independent contracts between the Unit Operator and the parties hereto either collectively or independently.

The development and operation of land subject to this agreement under the terms hereof shall be deemed full performance by Unit Operator of all obligations for such development and operation with respect to each and every part or separately owned tract subject to this agreement, regardless of whether there is any development of any particular part or tract of the unit area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or any of them.

DRILLING
TO
DISCOVERY

8. Within six (6) months from the effective date of this agreement, Unit Operator shall begin operations in the unit area to drill an adequate test well at a location upon the Unit Area to be approved by the Supervisor, if such location is upon lands of the United States, and if upon State lands or patented lands, such location shall be approved by the Commission, and having commenced such operations shall continue such drilling diligently until said well shall have been drilled to a depth not less than 4000 feet unless oil or gas which can be produced in paying quantities is encountered in said well at a lesser depth or unless, at a lesser depth, an igneous or metamorphic formation or some other condition or formation is encountered which would render further drilling inadvisable or impracticable. If said first well, drilled as aforesaid, fails to encounter the unitized substances, Unit Operator or his successor shall thereupon commence within six (6) months after the completion of the former well, and drill, one at a time, additional wells until a productive well is

completed to the satisfaction of the Supervisor and Commissioner, or until it is reasonably proved that the unitized land is incapable of producing the unitized substances; provided that the Secretary and Commissioner may grant extension of time for the commencement of any such well; and provided further that nothing herein contained shall preclude any Operator from effectively resigning as provided in Section 5 hereof before any obligation to commence a second or subsequent well accrues hereunder, and be relieved of the obligation to commence such well. Upon failure to comply with the drilling requirements of this section the Secretary may, after reasonable notice, declare this unit agreement terminated.

PLAN OF FURTHER DEVELOPMENT AND OPERATION

9. Within sixty (60) days from completion of a well capable of producing the unitized substances as aforesaid, Unit Operator shall submit for the approval of the Supervisor, the Commissioner, and the Commission an acceptable plan of development for the Unit Area, which plan or a subsequent modification thereof, when so approved shall constitute the further drilling and operation obligations of Unit Operator. Reasonable diligence shall be exercised by the Unit Operator in complying with the drilling and producing obligations of the approved plan of development and said plan shall, subject to like approval be modified or supplemented in whole or in part from time to time as may be required to meet changed conditions or to protect the interests of all parties to this agreement and the further obligations of the Unit Operator shall be conformed thereto; provided that in no event shall the operator under any such plan, or otherwise, be under any obligation to drill any well to any formation that does not afford a fair possibility for encountering the unitized substances in paying quantities. Well drilling operations including well completions, producing practices and well abandonments, shall be in accordance with the Plan of Development and Operation. All operations thereunder shall be subject to the approval of the Supervisor as to wells on federal land and by the Commission for wells on state and private land.

During any period when it shall appear that an acceptable plan of development cannot be adopted because of the inability of the Supervisor, the Commissioner and the Commission to agree upon the terms thereof, the Unit Operator may, in accordance with the applicable regulations referred to in Section 1 hereof, proceed with reasonable diligence to drill other wells to determine the limits of production and to develop the productive portion of the unit area, and may and shall operate all productive wells in conformity with good operating practices, and the conservation principles of this agreement.

PARTICIPATION
AFTER
DISCOVERY

10. Upon completion of a productive well as aforesaid, Unit Operator shall submit for the approval of the Secretary, the Commissioner and the Commission a schedule of lands based on subdivisions of the public land survey, including all subdivisions one-half or more of the acreage of which is then regarded as reasonably proved to be productive of unitized substances in paying quantities; all land in said schedule, when approved, to constitute a participating area effective as of the date of first production. Said schedule shall set forth the percentage acreage interest of each owner of rights in the participating area thereby established. Such percentage acreage interest shall govern the allocation of production from and after the date the participating area becomes effective. With the approval of the Secretary, Commissioner and the Commission, a separate participating area may be established for any separate deposit of unitized substances or for any group of such deposits. The participating area or areas so established shall be enlarged

from time to time in like manner and subject to like approval whenever such action appears proper as a result of further drilling operations to include additional land then regarded as reasonably proved to be productive in paying quantities, and a new schedule of percentage acreage interests conformable thereto shall thereupon be fixed. The effective date of any such enlargement shall be the first of the month next following the month in which the well is completed which demonstrates the propriety of the enlargement, and any unitized substances theretofore produced from such well shall be allocated to the lease on which the well is drilled. A well shall be deemed completed when equipped and successfully tested for production, all of which shall be done diligently. No land once included in a participating area shall be excluded from such participating area on account of depletion of the unitized substances therefrom, or for any cause save loss of title. It is the intent of this Section that a participating area shall at all times represent as nearly as possible the area known or reasonably estimated to be productive in paying quantities; but, regardless of any increase in the participating area, nothing herein contained shall be construed as requiring any retroactive apportionment of any sums accrued or paid for production obtained prior to the effective date of increase of the participating area.

Until a participating area or areas has or have been established as herein-provided, or in the absence of agreement at any time between the Unit Operator, the Secretary, the Commissioner, and the Commission as to the proper boundaries of a participating area, the portion of all payments affected by such absence of agreement, except the royalties due the United States and the State of New Mexico, may be impounded in a mutually acceptable bank.

ALLOCATION OF
PRODUCTION --
ROYALTIES

11. Except as provided in Section 12, all unitized substances produced under this agreement, except any part thereof used for production and development purposes thereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of land of the participating area, and for the purpose of determining any benefits that accrue on an acreage basis as a result of operations under this agreement, each such tract shall have allocated to it such percentage of said production as its area bears to the said participating area. Unitized substances produced from any participating area and used in conformity with good operating practice under an approved plan of operation for repressuring or cycling in any participating area shall be free from any royalty charge. If Unit Operator introduces gas obtained from sources other than the unitized substances into any participating area hereunder for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan first approved by the Supervisor, the Commissioner and the Commission, a like amount of gas, with due allowance for loss or shrinkage thereof from any cause, may be drawn from the formation into which the gas was introduced, royalty free as to dry gas but not as to the products extracted therefrom, provided that such withdrawal shall be at such time as may be provided in the plan of operation or as may otherwise be consented to by the Supervisor, the Commissioner and the Commission, as conforming to good petroleum engineering practice, and provided further that such right of withdrawal shall terminate on the termination of the unit.

Except as otherwise herein provided, royalties shall be paid or delivered as provided by existing leases or contracts,

at the lease or contract rate upon the unitized substances allocated to the lease or tract. Settlement shall be made on or before the 20th day of each month for the unitized substances produced during the preceding calendar month. Such royalties shall be paid by the party operating the wells, but nothing herein shall operate to relieve the lessees, or any of them, of their obligation to pay rentals and royalties under the terms of their respective leases.

The right is hereby secured to the United States and the State of New Mexico under existing or future laws and regulations to elect to take their respective royalty shares in kind or value.

DEVELOPMENT
OR OPERATION
ON NON-PARTICI-
PATING LAND

12. Any party hereto other than Unit Operator owning or controlling a majority of the working interest rights in any unitized tract included in the non-participating area having thereon a regular well location in accordance with a well-spacing pattern established under an approved plan of development and operation may drill a well at such location at his own expense, unless within 90 days of receipt of notice from said party of his intention to drill the well Unit Operator elects and commences to drill such well in like manner as other wells are drilled by Unit Operator under this agreement.

If such well is not drilled by Unit Operator and results in production such that the land upon which it is situated may properly be included in a participating area, the party paying the cost of drilling such well shall be reimbursed one hundred fifty percent (150%) of the average cost of drilling similar producing wells in the unitized area, and the well

shall be operated pursuant to the terms of this agreement all as though the well had been drilled by the Unit Operator.

If any well drilled by Unit Operator or by an owner of working interest rights as provided in this section obtains production insufficient to justify inclusion in a participating area of the land on which said well is situated, said owner of working interests at his election, within 30 days of determination of such insufficiency, shall be wholly responsible for and may operate and produce the well at his sole expense and for his sole benefit. If such well was drilled by Unit Operator, said owner of working interests shall pay the Unit Operator a fair salvage-value price for the casing and other equipment left in the well.

Wells drilled at the sole expense of any party other than Unit Operator or produced at his sole expense and for his sole benefit shall be subject to the drilling and producing requirements of this agreement the same as though drilled or produced by Unit Operator; and royalties in amount or value of production from any such well as well as rental charges, if any, shall be paid as specified in the lease affected, unless otherwise authorized in writing by the lessor.

RENTAL AND
ROYALTY
PAYMENTS

13. The Unit Operator, on behalf of the respective lessees, shall pay, or at the election of the Secretary of the Interior as to Federal leases and at the election of the Commissioner as to State leases shall deliver in kind, all royalties and shall pay all rentals due the United States and the State of New Mexico respectively, on account of operations by Unit Operator on unitized land and shall distribute the cost

thereof to the appropriate parties conformably with their respective rental and royalty obligations; provided, that nothing herein contained shall operate to relieve the lessees, or any of them, of their obligation to pay rentals and royalties under the terms of their respective leases.

On request of any party, Unit Operator at its election shall pay other royalties on his behalf in accordance with a schedule furnished by him and charge the cost thereof to his account; provided, that Unit Operator shall incur thereby no responsibility to any royalty owner, but such responsibility shall be and remain an obligation of the parties requesting payment thereof.

GOVERNMENT
ROYALTIES
AND RENTALS

14. Royalty due the United States on account of unitized Federal land shall be computed as provided in the operating regulations and paid as to all unitized substances on the basis of the amounts thereof allocated to such land as provided herein at the rates specified in the respective Federal leases; provided, that, for leases on which the royalty rate depends on the daily average production per well, said average production for any participating area shall be determined in accordance with the operating regulations as though all the unitized land within the same participating area were a single consolidated lease, and provided that during the period of the national emergency declared by the President May 27, 1941, Proclamation No. 2487, 55 Stat. 1647, upon a determination by the Secretary of the Interior that a new oil or gas field or deposit has been discovered by virtue of a well or wells drilled under this agreement, the royalty on production from such new field or

deposit allocated to Federal land subject to this agreement at the time of such discovery shall, during the 10-year period following the date of such discovery, be paid in value or delivered in kind at a flat rate of $12\frac{1}{2}$ per centum unless a lower rate is prescribed in the lease.

Rental for land of the United States subject to this agreement at the rates specified in the respective Federal leases shall be paid, suspended, or reduced as determined by the Secretary of the Interior, pursuant to applicable law and regulations.

CONSERVATION 15. Operations and production of unitized substances shall be conducted so as to provide for the most economical and efficient recovery of said substances to the end that maximum yield may be obtained without waste, as defined by or pursuant to State or Federal law or regulation; and shall be limited to such production as can be put to beneficial use with adequate realization of fuel and other values.

DRAINAGE 16. Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, or, with the approval of the Secretary as to federal interests and of the Commissioner as to state interests, and at the election of the Unit Operator as to private interests, pay a fair and reasonable compensatory royalty, as determined by the Supervisor as to federal interests, and the Commissioner as to state interests subject to this agreement and by agreement between the Unit Operator and royalty owners, as to private interests.

LEASES AND CON-
TRACTS CONFORMED
TO AGREEMENT

17. The parties hereto or consenting hereto holding interests in leases embracing unitized land of the United States or of the State of New Mexico consent that the Secretary and Commissioner, respectively, may, and said Secretary and Commissioner, by their approval of this agreement, do hereby establish, alter, change or revoke the drilling, producing, and royalty requirements of such leases and the regulations in respect thereto, to conform said requirements to the provisions of this agreement, but otherwise the terms and conditions of said leases shall remain in full force and effect.

Owners and lessors of privately owned lands or of interests therein, including royalty interests, and including their heirs, executors, administrators, successors and assigns, by subscribing or consenting to this agreement, in person or by attorney in fact, do hereby severally agree that the respective leases covering their several lands or interests therein, may be and remain in force and effect for the respective primary terms therein stated, and so long thereafter as oil or gas may be produced therefrom in quantities sufficient to justify the cost of production; and also in the event that any of the land embraced in any such lease is during the primary term of such lease included within a participating area duly selected and approved under this unit plan of development, so that each owner becomes entitled to a share in the proceeds of production from the participating area, payable at the respective lease rates on the production allocated on an acreage basis to the portion of the lease within the participating area, then each such lease is hereby extended, without

further delay rental obligation, as to the land embraced therein which is so included in such participating area, for the full term of this unit plan as herein stated.

The Secretary, Commissioner and, except as otherwise provided in the preceding paragraph of this Section, all parties hereto further determine, agree and consent that during the effective life of this agreement, drilling and producing operations performed by the Unit Operator upon any unitized land will be accepted and deemed to be operations under and for the benefit of all unitized leases subject hereto; that no such lease shall be deemed to expire by reason of failure to produce wells situated on land therein embraced; that if a discovery of a valuable deposit of unitized substances is made anywhere on the unitized land, each such lease in effect on or after the date of such discovery shall be deemed to continue in force and effect as to land in the unit area, as long as unitized substances are produced anywhere on unitized land in paying quantity; that prior to such discovery of unitized substances anywhere on unitized land, the expiration date of each unitized lease embracing lands of the United States shall be the date prescribed in such lease subject to such preferential right to a new lease as may be authorized by law; and the suspension of all operations and production on the unitized land pursuant to direction or consent of said Secretary and Commissioner shall be deemed to constitute such suspension pursuant to such direction or consent with respect to each such lease, and that no lease shall expire on account of such suspension, as to land in the unit area.

The parties hereto or consenting hereto, holding interests in leases subject to this agreement embracing

lands other than those of the United States or of the State of New Mexico or holding interests in any other agreements that involve oil and gas rights in lands in the Unit Area, consent and agree, to the extent of their respective interests, that all such leases and agreements shall conform to the provisions of this agreement.

COVENANTS
RUN
WITH LAND

18. The covenants herein run with the land until this agreement terminates, and any grant, transfer or lease of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, lessee, or other successor in interest and as to federal land, shall be subject to approval by the Secretary, and as to lands of the State of New Mexico, shall be subject to the approval of the Commissioner. No transfer of any interest in and to any of the unitized lands or affecting the production therefrom shall be binding upon the Unit Operator until the first day of the next calendar month after the Unit Operator has been furnished with an original, photostatic or certified copy of the instrument of transfer.

EFFECTIVE
DATE
AND TERM

19. This agreement shall become effective on the first day of the calendar month next following approval by the Secretary of the Interior and the Commissioner, provided however that nothing herein shall be construed to waive or limit the right of the Commission to approve this agreement pursuant to applicable state law. Except as otherwise provided as to private leases by the second paragraph of Section 17 hereof, this agreement shall terminate on December 31, 1949, unless (1) such date of

expiration is extended by the Secretary and the Commissioner; or (2) a valuable discovery of unitized substances has been made on unitized land, in which case the agreement shall remain in effect as long as unitized substances can be produced from the unitized land in paying quantities; or (3) it is reasonably determined at an earlier date that the unitized land is incapable of commercial production of unitized substances, and, with approval of the Secretary and the Commissioner, notice of termination is given by Unit Operator to all parties in interest at their last known address; or (4) it is terminated as provided in sections 6 or 8 hereof; provided that this agreement may be terminated at any time by consent of the owners of 75 per centum, on an acreage basis, of the owners of working interests signatory hereto with the approval of the Secretary and the Commissioner.

RATE OF PROSPECT- ,20. All production and the disposal
ING, DEVELOPMENT,
AND PRODUCTION thereof, shall be in conformity with allocations, allotments and quotas made or fixed by the Commission under any State Statute; provided however that the Secretary is vested with authority pursuant to the amendatory acts of Congress of March 4, 1931, and August 21, 1935, supra, to alter or modify from time to time in his discretion the rate of prospecting and development, and, within the limits made or fixed by the Commission to modify the quantity and rate of production under this agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof

and the public interest to be served thereby to be stated in the order of alteration or modification; provided further that no such alteration or modification shall be effective as to any lands of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

UNAVOIDABLE
DELAY

21. All obligations under this agreement requiring Unit Operator to commence or continue drilling or to operate on or produce oil or gas from any of the lands covered by this agreement shall be suspended while, but only as long as, the Unit Operator is prevented from complying with such obligations, in whole or in part, by strikes, lockouts, acts of God, Federal, State or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to the matters herein enumerated or not.

CONFLICT
OF
SUPERVISION

22. Neither the Unit Operator nor the working Interest Owners nor any of them shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability for delay or failure in whole or in part to comply therewith to the extent that said Unit Operator, Working Interest Owners or any of them are hindered, delayed, or prevented from complying therewith

by reason of failure of Unit Operator to obtain the joint consent of the representatives of the United States and the representatives of the State of New Mexico in and about any matter or thing concerning which it is required herein that such joint consent be obtained. The parties hereto and consenting hereto, including the Commission agree that all powers and authority vested in the Commission in and by any provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

NON-
DISCRIMINATION

23. The Unit Operator expressly agrees that in any and all operations conducted hereunder, it shall not discriminate against any employee or applicant for employment because of race, creed, color, or national origin and shall require an identical provision to be included in all subcontracts.

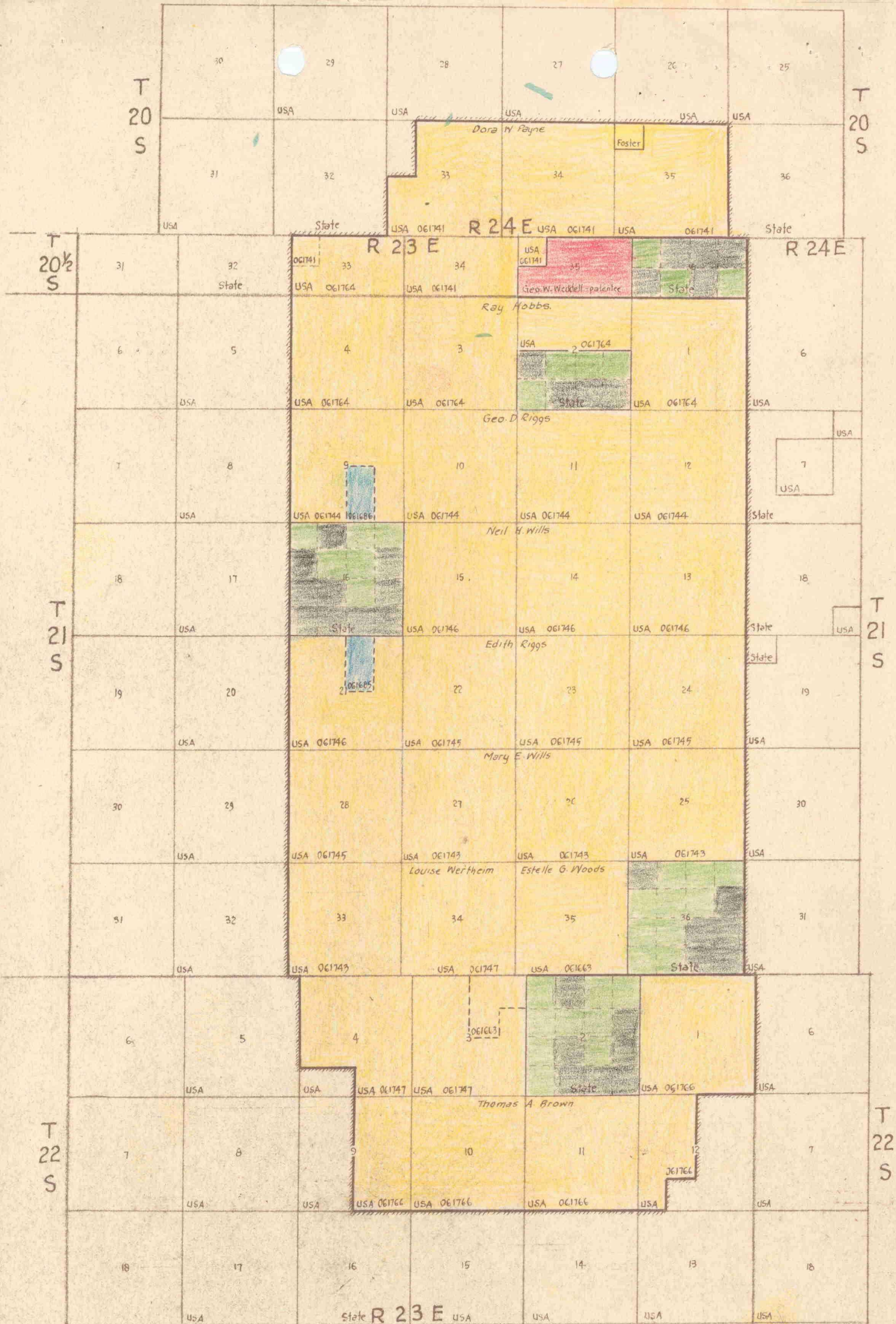
SUBSEQUENT
JOINDER

24. Any person owning rights in the unitized substances within the unit area who does not commit such rights hereto prior to the effective date hereof, may thereafter become parties hereto by subscribing this agreement, and if such parties are working interest owners they shall also subscribe the operating contract and comply with all terms and conditions therein set forth.

COUNTERPARTS

25. This agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.



CLASS	ACRES	%
Federal	20,21.76	87.34
State	2,619.71	11.37
Patented	298.82	1.29

ROCKY ARROYO UNIT

Eddy County, N. M.
June 1946

1 inch = 1 mile
EXHIBIT "A"

UNIT AREA		Non Committed
Committed		
	Federal	
	State	
	Patented	